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MORTGAGE BANKING

DECEMBER 1983

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Volume 44 No. 3
December 1983

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Published monthly since 1939 by the Mortgage Bankers Association of America

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6579

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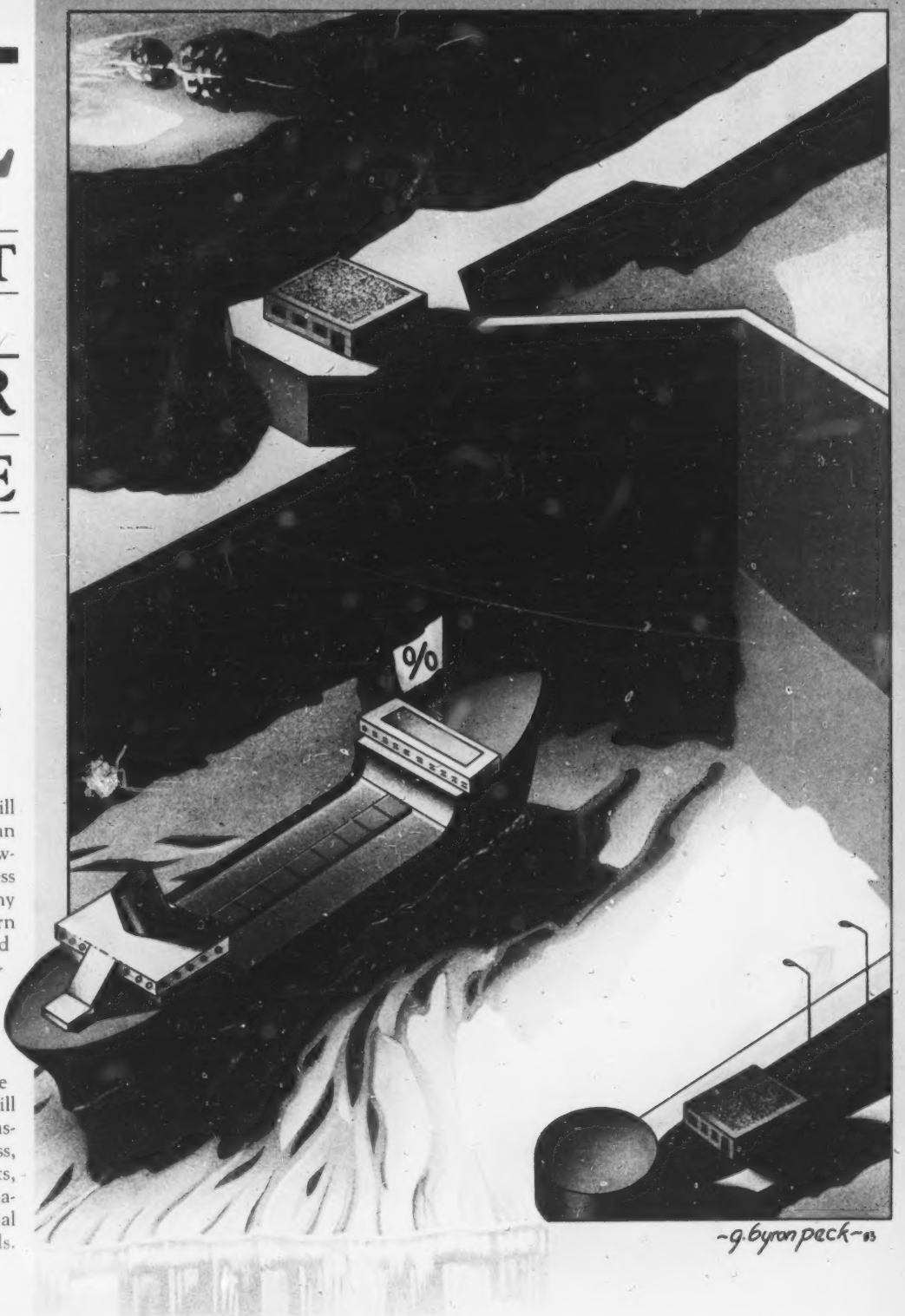
Second class postage paid at Washington, D.C. and additional mailing offices. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banking, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

'84 INTEREST RATES: HIGHER BUT STABLE

Daniel T. Van Dyke
Michael S. Salkin



Interest rates in 1984 will be at a higher level than they were in 1983. However, interest rates were less volatile in 1983 than at any time since 1977. This pattern of rate stability is expected to continue through 1984 because of the economic and political conditions influencing money markets.

High interest rates will have a major impact on the real estate industry and will be felt in a slowing of industry growth rates. Nevertheless, levels of activity of starts, sales, and mortgage originations will remain substantial and will be above 1983 levels.

Interest rates and monetary policy

Interest rates in 1984 will be at a higher level than they were in 1983 because the underlying economic and political conditions in 1984 are expected to be less favorable toward lower interest rates. Nevertheless, there are economic and political realities that limit how high interest rates can rise.

Three fundamental influences underlying money market conditions are substantially different now from those that existed a year ago. These influences are a healthy economic recovery accompanied by a rising demand for credit, the Federal Reserve's posture toward monetary restraint, and the continuing fear of inflation. All three factors point to higher interest rates for 1984.

For now, the recovery is substantial and broadly based. After weak eco-

continued

ILLUSTRATION BY BYRON PECK/EGLY ASSOCIATES

nomic growth in the first quarter of 1983, second quarter economic growth was very solid. Real GNP advanced at a 9.7 percent annual rate. The third quarter continued the brisk growth with real GNP advancing 7.9 percent. We expect real GNP in the fourth quarter to be 6.6 percent above year-ago levels. With income and employment growing and consumer confidence strong, consumers will continue to spend through 1984. Consumer spending on durable goods began in the second quarter of 1983 and will continue for three to five quarters.

As a result, consumer demand for credit is growing and will continue at least through 1984. In addition, commercial and industrial demand for credit is expected to increase in 1984. Therefore, total private credit demand will be higher next year. Despite the modest decline in the Federal Government's deficit, total credit needs will be greater in 1984 than in 1983, keeping upward pressure on interest rates.

The second fundamental change in money market conditions is the Federal Reserve's policy to slow the growth in the money supply. This policy shift occurred because of the fears of renewed inflation. At the end of 1982 and in early 1983, the Fed supplied enough bank reserves to permit the money stock to grow at about a 14 percent annual rate. After abandoning their stated money supply targets, the Fed re-established a "monitoring range" for M1 growth with an upper limit of 9 percent, considerably below the rates at which money was supplied from mid-1982 to mid-1983. Indeed, from July through October, M1 growth was at a 1.7 percent annual rate. This slowing, along with increasing loan demand, will keep interest rates above their 1983 levels.

The third fundamental change in money market conditions is the expectation on the part of the general public that inflation will worsen. A year ago very good price news began to appear. It was followed early in 1983 with the 15 percent drop in crude oil prices that produced very favorable price news for several months. During this period, price expectations were revised downward. As we approach the end of 1983, there has been more than one year of very rapid money growth, and prices have undergone some acceleration from their lows in early 1983. Inflation expectations are at best neutral and at worst are being revised upward in contrast to a year ago. Hence interest rates, which carry an inflationary premium, will be prevented from falling to their early 1983 levels during the coming year.

Economic and political factors

Despite the factors suggesting interest rates will remain above the levels in 1983, there are three economic and political factors that suggest an upper limit on interest rate movements.

The first factor limiting interest rate increases concerns the situation in which debtor countries currently find themselves. Saddled with a mountain of external debt, and experiencing a weak market for their exports, many of these countries find it difficult to earn enough foreign exchange to service their debts. Higher U.S. interest rates aggravate the situation by increasing debt service payments that are, for the most part, tied to the prime lending rate in the U.S., or the Eurodollar rate.

It seems unlikely that the Fed would want to unnecessarily aggravate the position of the debtor countries when Federal Reserve Chairman Volcker has worked so hard this year to avert serious financial problems. Many domestic banks would experience a serious erosion of their capital if a number of debtor countries repudiated their debt. Consequently, the Fed can let rates move up only within a limited range without those undesirable consequences.

Second, unemployment in the U.S. is still politically too high. A substantial increase in interest rates would seriously hurt the interest-sensitive sectors of the economy such as housing, autos, and other durable goods manufacturing, aggravating the unemployment problem. This would create political pressures to impose more congressional control over the Fed regardless of who wins the White House.

The third and least important reason for a limit on higher interest rates is the presidential election in the United States in November 1984. Federal Reserve policies have enjoyed the support of the Reagan Administration for the past four years, hence we do not expect the Fed to pursue a policy of substantial tightening resulting in major interest rate increases through mid-1984 leading up to the election.

For these three reasons—the position of the debtor countries, the unemployment problem, and the Fed's political interest—the Fed's latitude for upward rate movements is limited through 1984.

Given the economic and political conditions that will constrain interest rate movements next year, we expect interest rates to be limited within a narrow range. The prime rate, for example, is expected to vary in the 11 to 13 percent range. On the upside, rates are unlikely to rise more than one or two percentage points from current rates and likewise, on the downside, rates are not likely to decline below 11 percent in 1984. The two percentage-point range within which the prime interest rate is expected to remain next year is the narrowest since 1977, with the exception of 1983.

Housing and finance

Mortgage interest rates are subject to the same forces we discussed earlier. In

continued

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Table 1

	Mortgage Interest Rates[1]	Housing Starts[2] (000)	Existing House Sales[3] (000)	Mortgage Originations[4] ($ bill.)
1975	9.01%	1161	2452	$ 77.9
1976	8.99	1538	3002	112.7
1977	9.01	1987	3572	161.9
1978	9.59	2020	3863	185.0
1979	10.85	1745	3701	186.5
1980	12.85	1292	2881	133.7
1981	14.91	1084	2350	98.2
1982	15.31	1060	1947	95.0
Est 1983*	13.25	1708	2700	170.8
Est 1984*	13.95	1750	3100	225.6

*Estimates for 1983–84 are Bank of America forecasts.

[1]*Source: FHLB Journal-Tables 5.1-Terms on Conventional Home Loans Made: National Averages for all Types of Lenders*

[2]*Source: U.S. Bureau of the Census, Construction Reports, Series C-20 and C-25.*

[3]*Source: National Association of Realtors—Existing Home Sales Annual Report.*

[4]*Source: Regional Data Associates Quarterly Report*

addition, there are other factors affecting changes in mortgage interest rates. Those factors are the level of new construction and resales and the type of financing used to consummate sales.

As shown in Table 1, housing starts, house resales, and mortgage originations all have been historically affected by changes in interest rates. The increases in interest rates in recent years have led to dramatic declines in levels of housing activity. From 1978 to 1979, for example, mortgage rates increased an average of only 126 basis points, starts declined 14 percent, and resales declined 5 percent. The use of seller financing kept resales from declining even further. From 1980 to 1981, interest rates increased an average of 207 basis points, and starts fell another 16 percent, with resales falling 18 percent. In addition, mortgage originations by institutional lenders declined 20 percent on a year-over-year basis.

During 1983, the housing industry recovered. The drop in interest rates triggered a 61 percent increase in starts, a 39 percent rise in sales, and an 80 percent increase in mortgage originations.

However, activity during the year first increased and then decreased as interest rates changed.

For the first six months of the year, starts and resales increased dramatically as interest rates declined. Starts increased approximately 80 percent, and sales increased 42 percent on a year-over-year basis. During the second half of the year, as interest rates increased, starts and sales slowed. Likewise, mortgage origination activity increased by 104 percent in the first half and is expected to increase much more slowly in the second half of the year.

As these data indicate, seemingly small changes in interest rates affect housing rather dramatically. As a general rule, "each percentage point drop in mortgage interest rates from 17 percent to 12 percent will result in an increase of at least 2.2 million qualified households."[1]

In 1984, continued improvement of the real estate industry depends almost entirely on the path of interest rates as consumer incomes grow, unemployment declines, and demographic demand remains favorable. Should mortgage interest rates stay at levels above their 1983 levels as we expect, then 1984 will be a period of slow growth for the industry.

As shown in Table 1, starts will increase 2.5 percent to a level of 1.75 million units, sales will increase 15 percent, and originations will increase 32 percent.

[1]*Joseph Hu, Bond Market Research,* Housing Analysis, *Salomon Brothers Inc., June 9, 1982.*

Alternative mortgage instruments

The rising interest rate environment in the second half of 1983 brought the increased use of mortgage instruments designed and used during the high rate environment of the early 1980s. When mortgage rates were out of reach for many buyers, lenders devised mortgage instruments that reduced buyers' monthly debt service burdens and in some cases shared interest rate risk. Graduated Payment Mortgages (GPMs), Growing Equity Mortgages (GEMs), and Adjustable Rate Mortgages (ARMs), gained in popularity.

These mortgages instruments were designed to reduce initial monthly payments below what they would have been on a comparable fixed-rate loan. Despite the advantages these loans offer—primarily lower initial monthly payments—they have distinct disadvantages. In the case of the GPM and GEM loans, monthly payments increase on a scheduled basis over time starting in the second year of the loan. In the case of the ARM, payments vary with changes in interest rates.

Given the disadvantages of these loans, buyers only agreed to them in order to qualify for home loans when interest rates were high. When interest rates dropped in early 1983, buyers quickly opted for traditional fixed-rate mortgages that became available.

As interest rates increased in the second half of the year, ARMs again became popular. In 1983, almost 50 percent of all loans closed were originated with an adjustable rate mortgage instrument, compared with 40 percent in 1982.

continued

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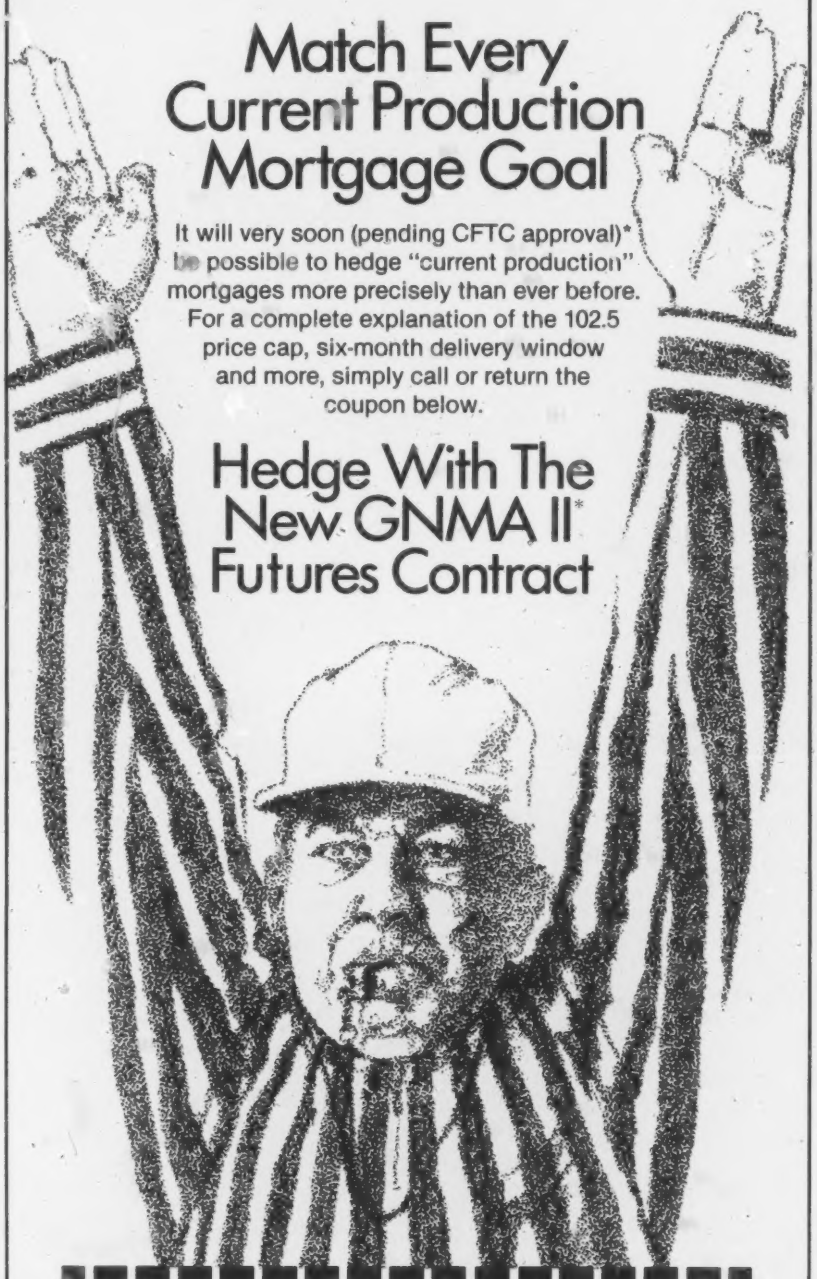

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Changes in housing finance

As interest rates increased in the last half of 1983, changes in housing finance began to take place. The increase in interest rates caused a resurgence of financing schemes used by individual sellers and builders in the period of high interest rates from 1980 to 1982. More sellers again resorted to carrying their own financing to sell their houses as rising rates slowed the resale market. More builders resorted to offering subsidized interest rates to buyers in order to make their newly constructed houses more affordable.

Early in 1983, the use of seller financing declined by 50 percent from the levels and dollar volumes of 1982. The use of loan assumptions, combined with seller-carried financing, declined from approximately half of all sales to less than a quarter of all sales. In the second half of 1983, as the rise in interest rates made institutional interest rates unaffordable for many buyers, seller financing increased. While the use of seller finance did not reach the more than 50 percent share that occurred in 1982, the use of assumptions and seller-carried seconds is expected to increase to a 30 percent share of all sales transactions in 1984.

Outlook

The fundamental economic and political conditions influencing the money market will be considerably different in 1984 from that in 1983, leading to higher interest rates in 1984. However, those conditions suggest that interest rates will continue to be relatively stable.

Moreover, those fundamental conditions suggest that mortgage interest rates in 1984 will be at a slightly higher level on average but that they will be less volatile. Consequently, the level of activity in the real estate industry will remain high, even though the rate of growth will slow dramatically.

Because interest rates have moved up since early 1983, we have witnessed a return of seller financing and the use of alternative mortgage instruments.□

"Today, more than half of all mortgages originated nationwide are being pooled or packaged into mortgage-related investments for sale through the secondary markets."

THE MOVE TOWARD MORTGAGE SECURITIZATION

Michael A. Smilow

The largest potential growth area of the fixed-income investment market is the mortgage-backed security—an investment that promises to link the mortgage markets and the capital markets in a way that will benefit homebuyers, mortgage originators, and institutional investors alike.

Today, more than half of all mortgages originated nationwide are being pooled or packaged into mortgage-related investments for sale through the secondary markets. To spur continued growth of such vehicles, government and private industry have joined efforts in a drive to create a new environment for mortgage investments—through the securitization process. Packaging mortgage investments in security form enhances investment potential by moving away from the purchase and servicing of whole loans toward a more standardized mortgage-related security that can appeal to the broader investment community.

The move toward securitization of mortgage products not only demonstrates industry optimism for the potential of a streamlined and marketable security, but also reflects changes taking place in the primary mortgage market—changes that have demanded the creation of a more manageable, investor-oriented mortgage instrument.

The market for home mortgage debt continues to be the nation's most decentralized capital market. The mortgage credit system has undergone dramatic changes, while the impact of deregulation has meant an end to low-rate deposits and inexpensive local lending funds.

Coping with changes

Thrift institutions, which traditionally dominated the mortgage lending market, can no longer rely on local savings dollars to support local mortgage origination activity. In fact, savings and loan associations have seen their market share of origination volume decline from a high of 60 percent in 1977 to 41 percent in 1982. Mortgage bankers, including mortgage banking subsidiaries of savings institutions, on the other hand, are simultaneously increasing their share of mortgage originations.

With deregulation of savings rates and sharp changes in the interest rate environment, lending institutions are being forced away from the standard, fixed-rate, long-term, fully-amortized mortgage. Mortgage lenders recognize that this traditional mortgage instrument can be risky to originate for holding in their portfolios. The result has been that lenders are originating variable and adjustable rate mortgages that are more compatible with their new patterns of cost of funds and, when sold in the secondary market, offer a premium investment product.

The business of raising capital from diverse capital market outlets has become central to our industry's ability to meet the financing needs of the primary mortgage market. Securitization will further broaden market opportunities to generate capital by increasing the appeal of mortgage securities to non-traditional investors.

In essence, the process will enable investors to commit to mortgage-related investments without undertaking the administrative burdens of individual mortgages, with greater liquidity, and with even less risk than is associated with the underlying mortgage obligations themselves.

While mortgage-backed investments have, to date, successfully met the needs of certain investors, the market has the potential to expand significantly—by appealing to new, nontraditional institutional investors, such as pension funds, insurance companies, and other money managers.

Mortgage security status

Attracting these investors, however, requires a mortgage security that is structured to perform like other high value corporate securities—while offering the diversification and high credit quality benefits of home mortgages. Efforts to help mortgage security characteristics resemble corporate bond instruments are now underway by Federal Government decision-makers and private industry.

As part of the current effort to develop comprehensive legislation that would revamp the secondary mortgage market, three general areas of change are being considered: technical proposals to enhance the private secondary market; modifications of the Securities and Exchange Acts of 1933 and 1934; and passage of the Trusts for Investments in Mortgages (TIMs) concept.

These various technical and legal changes being considered are all part of an effort to expand participation by private issuers and broaden the appeal of such investments among investors. The purpose is to create a more liquid market for such investments to aid customers at both ends of the transactions.

The most notable proposal being reviewed is the TIMs concept to allow more active pool management and control of mortgage securities, both of which are currently restricted. The proposal directly addresses some inherent aspects of mortgage securities that have prevented their widespread acceptance by many institutional investors.

TIMs, in essence, is not a program, but a concept of regulatory and tax changes that would extend the flexibility and management under which such securities could be issued by private entities. The underlying goal of the proposal is to offer more flexibility between the contractual mortgage and a contractual mortgage-backed investment by permitting the issuer to manage assets more closely to meet specific investor preferences.

Continued expansion of the mortgage securities market has been hin-

continued

Chart 1

Securitized Single-Family Organizations

	Private Companies	vs	Federal Agencies
1976	$ 27M		$14,548M
1977	255M		21,393M
1978	888M		21,018M
1979	1,763M		28,576M
1980	994M		22,245M
1981	1,465M		14,613M
1982	2,439M		52,814M*
1983	(N/A) (first eight months)		56,000M*

Source: Federal National Mortgage Association (FNMA) Research. Salomon Brothers, Inc.

**The figures for 1982 and 1983 include swap programs.*

dered by the inherent behavior of the underlying mortgage—the lack of call protection, inflexible interest, and unpredictable principal payments, resulting in difficulties in evaluating effective yields through various maturities within a specific pool. Under the TIMs concept, however, many—if not all—of these perceived negative aspects could be mitigated.

With call protection or reinvestment options, investors could be buffered from some of the unpredictable, typical mortgage behavior, including defaults, delinquencies, and prepayments. By breaking up the cash flow to less-frequent payments, issuers can assure investors of a more predictable and manageable investment. And by taking into consideration the application of more managed principal repayment rates, issuers can provide a dependable valuation of the security as designed to meet particular investor needs.

Of utmost importance is the potential for structuring of payment schedules within a total mortgage pool to provide sequential or serialized principal repayments, rather than the rigid pro-rata distributions now required for pass-through mortgage securities.

This suggests that investors can purchase a more predictable piece of the cash flow, with beginning and ending dates of principal repayments established to some degree rather than be limited rigidly to a pro-rata portion of the cash flow, for the entire life of the underlying mortgages.

The value of this aspect of the TIMs concept is reflected in the recent, spectacular introduction and acceptance of Collateralized Mortgage Obligations (CMOs) managed by the Federal Home Loan Mortgage Corporation with three different maturity patterns.

In addition, other mechanisms, such as unit investment trusts and mutual funds specializing in mortgage-backed security investments, are also emerging as viable mortgage investment alternatives for certain investor groups. Also, mortgage pass-through securities are being "bondized," particularly by homebuilders and home finance companies, to create more flexible investment packages. All of these developments suggest that there is a real market demand for "premium" tailored mortgage products. Market conditions are right for a securitized mortgage vehicle, provided such an investment can be structured to meet an investor's desired investment goals. And the private participants in the mortgage securities market have realigned to accept these new challenges.

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Secondary market players

Until recently, the mortgage-backed securities market has been dominated by three Government and quasi-governmental Federal credit agencies—the Government National Mortgage Association (Ginnie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mae), and the Federal National Mortgage Association (Fannie Mae).

Now, however, private industry players are offering competitive mortgage investments and services designed to supplement Federal activities and to fill market niches not serviced by the Federal agency programs.

Today, a series of private conduit companies, including MGIC's Mortgage Marketing Corporation's "Maggie Mae," and similar efforts by such organizations as General Electric Credit Corporation and Merrill Lynch Mortgage Capital, Inc., are working to link the homebuyer with the capital markets investor. One of the newest major market programs is Residential Funding Corporation, a subsidiary of Norwest Bancorporation.

This burgeoning mortgage-backed securities market—while a relatively new industry—is evidenced by the dollar volume of originations being converted to mortgage security form. (See Chart 1.)

FNMA research reveals that private sector activity has increased from $27 million in 1976 to more than $2.4 bil-

continued

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lion in 1982. In comparison, the Federal agency programs, which reached a peak of $28 billion in 1979, had already exceeded $56 billion during the first eight months of 1983. This record volume is due, in part, to the introduction of swap programs to exchange mortgages for mortgage pass-through securities issued by FHLMC and FNMA.

Recent industry patterns and innovations in the secondary market lend credibility to the argument that mortgage-backed securities do have a place in investment portfolios. A well-designed mortgage product offers an intermediate term investment that has the safety and risk spread of a custom-tailored investment. Mortgage-related investments can be packaged in a number of ways and backed by a variety of short- or long-term loans and housing types to meet a particular investor's return-on-investment goals.

At MGIC, we believe securitization will determine the course of secondary mortgage market activity in the months and years ahead. As a result, we—like other private mortgage insurers—are working to develop customized mortgage pool and special hazard insurance programs to provide necessary protection and financial guarantees to reduce investment risk. Such programs will not only enhance the reliability of mortgage cash flow but also give unique and superior value to the home mortgage itself, as collateral for fixed-income debt.

Today, there is a merging of talents as mortgage originators and servicers, private mortgage insurers, and investment marketing organizations develop industry partnerships to provide innovative and well-managed mortgage investments. If current legislative proposals are successful, mortgage market securitization promises to accelerate and expand the role of the home mortgage loan as the basis for an efficient and high-quality bulk investment—a premium investment on par with other corporate securities that are suitable and attractive to a broad range of fixed-income investors, both institutional and individual. □

Mortgage Securities

PREDICTING PAYMENTS

Scott M. Pinkus
Evan B. Firestone

The uncertainty in valuing a mortgage security has hindered the development of the market for these instruments. At the heart of the problem is the issue of prepayments—what they are, and why they matter.

A mortgage security usually consists of a group of mortgages, any one of which can be prepaid prior to its maturity. Because of the potential for early prepayment, the timing and magnitude of the principal payments to the security holder are uncertain. The rate of principal payback, particularly that resulting from prepayments, must be estimated in order to determine the value of these securities. The faster the principal is returned on a security purchased at a premium, the lower the yield will be, while the converse is true of a security purchased at a discount.

An understanding of the various methods that currently exist for estimating prepayments is necessary in order to participate effectively in this market. The use of conditional prepayment rates (CPRs) provides the clearest and most accurate representation of principal prepayments and therefore the best estimate of the value of a mortgage security.

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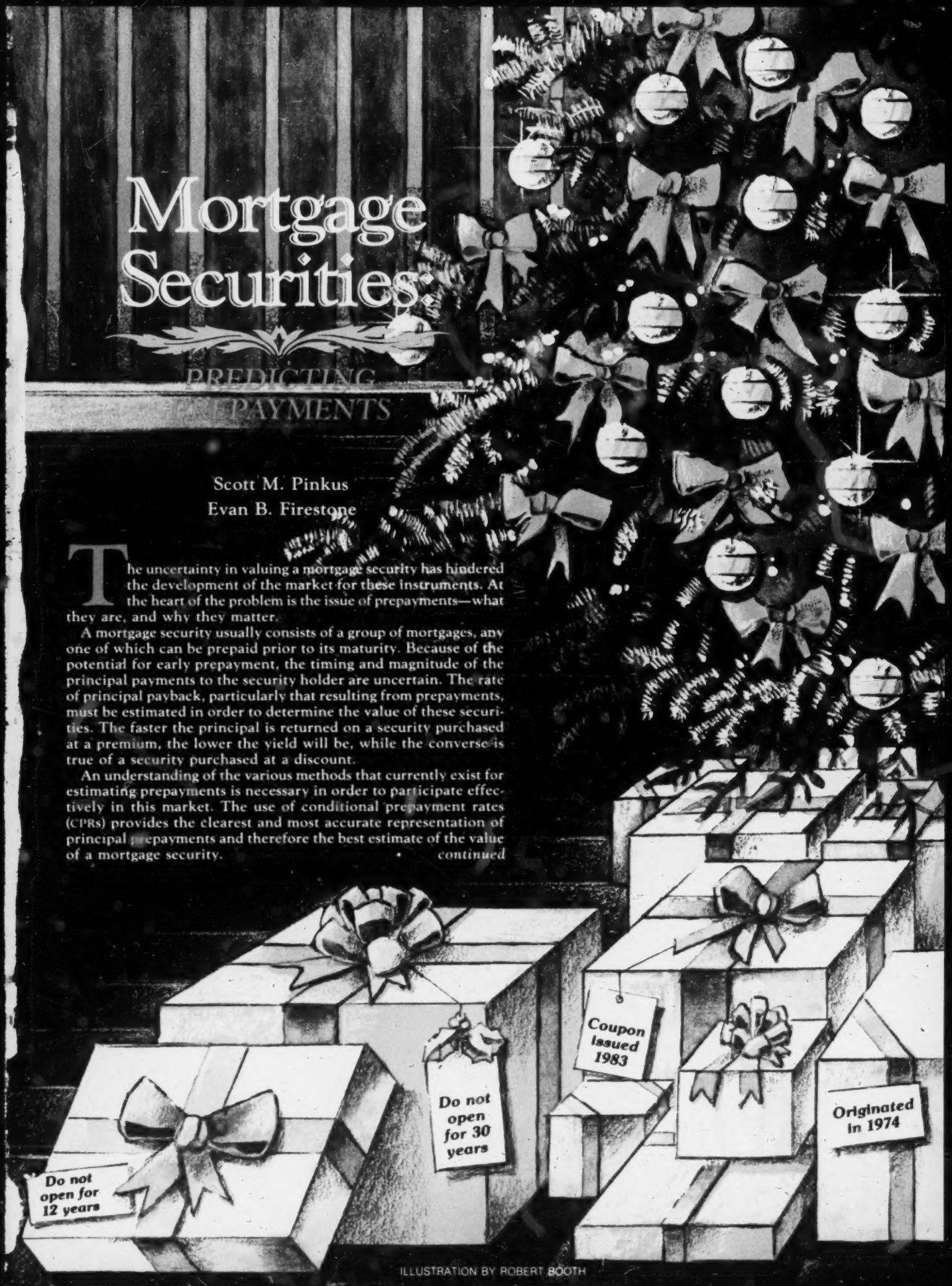

ILLUSTRATION BY ROBERT BOOTH

Twelve-year life convention

The flaws inherent in the two most commonly used methods of estimating prepayments, the 12-year life prepayment assumption and a percentage of FHA experience, are well documented.[1] The 12-year life convention, the implicit prepayment assumption used in quoting yields on 30-year mortgage securities, was adopted during the early years of the mortgage securities market to standardize mortgage calculations. The assumptions behind this convention, however, are not realistic in today's marketplace. The 12-year life method assumes a security is backed by new 30-year mortgages whose cash flows consist of interest and scheduled amortization of principal for 12 years and full prepayment of principal at the end of the twelfth year. Because many of the securities outstanding in the market are significantly aged, the assumption that they are new is a serious departure from reality. In addition, the convention was adopted during a period of relatively stable interest rates when the range of mortgage rates outstanding was narrow.

In the current volatile interest rate environment with a wide range of security coupons outstanding, the assumption of full prepayment after 12 years, or any other point estimate, cannot be meaningfully applied across these varying coupons. Because the cash flow distribution that a point estimate implies is unrealistic, the valuation of a security based on this convention is inaccurate and often seriously misleading.

continued

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Editor's Note: Portions of this article originally appeared as one in a series of reports published earlier this year by the Mortgage-Backed Securities Research Department of the Debt Strategy Group, Merrill Lynch Capital Markets. The authors updated the information for publication in Mortgage Banking. *Larry Guidarelli assisted the authors in developing their prepayment data base.*

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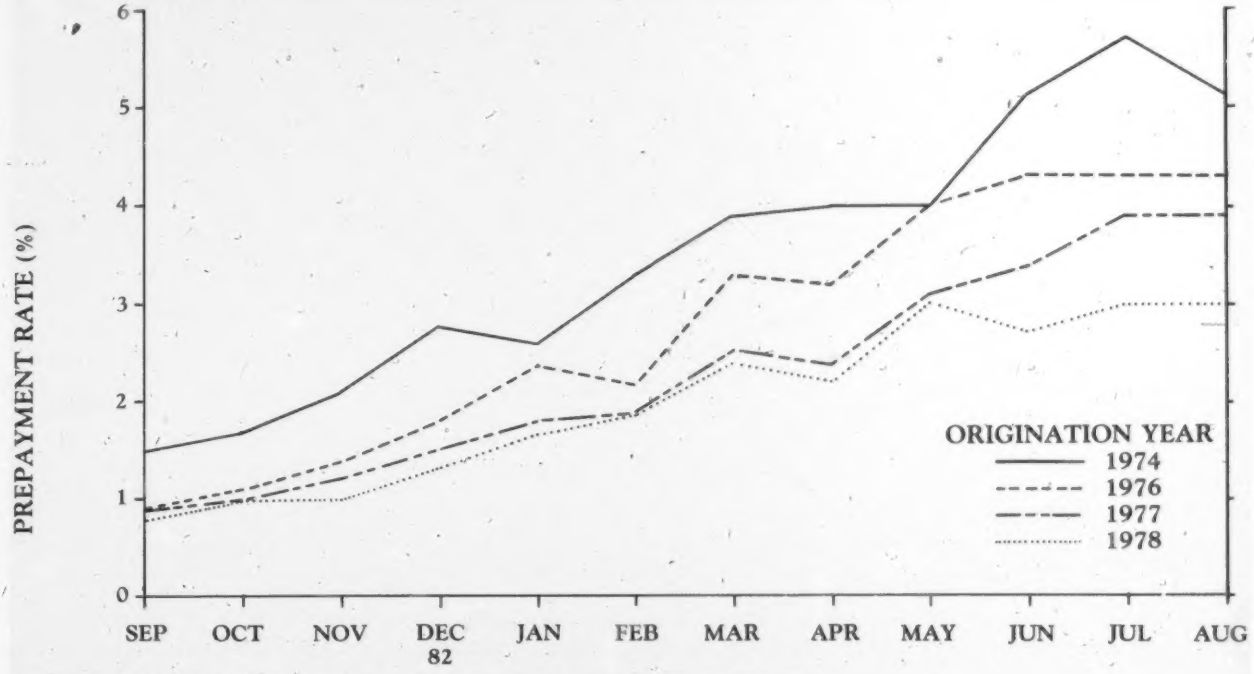
Figure 1

GNMA Single-Family 8% Securities
Annualized Conditional Prepayment Rates (%)



Source: Merrill Lynch Capital Markets, Debt Strategy Group, Mortgage-Backed Securities Research

FHA experience

Estimating prepayments by using a percentage of FHA experience resolves some of the problems of a point estimate calculation by taking the age of the security into account and by using a cash flow distribution more representative of actual experience. The problems with this method, however, are significant. The FHA series represents the termination distribution (prepayments and defaults combined) of all FHA-insured mortgages written between 1957 and 1981 aggregated by mortgage age. Terminations, therefore, are averaged across vastly different interest rate environments. The rates on the mortgages comprising the experience are also different.

Using the termination experience of mortgages with different rates under different economic environments, or an arbitrary multiple of this experience, is of dubious value in estimating future prepayments.

Conditional prepayment rates

A technique for analyzing prepayments that is more realistic than either the 12-year life convention or a percentage of FHA experience involves the use of conditional prepayment rates (CPRs). The conditional prepayment rate is the percentage of principal outstanding at the beginning of a period that prepays during that period. The CPR is calculated using the actual experience of mortgage securities, and so does not suffer the drawback of being an arbitrary calculation, such as the 12-year life assumption, or of being linked to an inaccurate termination distribution, such as FHA experience.

Because the CPR calculation is conditional upon the prior period's ending principal balance, the age of the security is taken into account. The cash flow distribution that is generated using a constant CPR or series of varying CPRs can be more representative of the actual distribution of prepayments on a mortgage security. More significantly, a CPR is a pure number that can be easily interpreted, understood, and tracked in the marketplace.

While many market participants have already recognized the importance of using conditional prepayment rates, the specific calculation technique has not been standardized. The result has been an abundance of contradictory information circulating in the market.

There are several issues involved in computing these numbers that must be

continued

Figure 2

GNMA Single-Family Securities
Annualized Conditional Prepayment Rates (%)

Coupon:	8.00	8.50	9.00	9.50	11.00	11.50	12.00	12.50	13.00	13.50	14.00	15.00	16.00	17.00
Issued:	All	All	All	All	All	All	All	All	All	All	All	All	All	All
Sep. 82	1.0	1.0	1.2	1.2	2.3	2.0	0.7	3.4	3.0	4.1	2.1	2.2	4.1	12.0
Oct. 82	1.1	1.5	1.5	1.2	2.0	2.2	1.1	3.4	3.1	3.6	2.5	3.1	9.7	21.5
Nov. 82	1.4	1.9	1.3	1.4	2.4	2.3	0.7	4.4	3.8	3.9	3.6	7.8	22.2	30.8
Dec. 82	1.7	2.0	1.5	1.5	2.6	2.3	0.5	4.3	3.8	4.8	6.7	17.0	34.2	44.7
Jan. 83	2.0	2.2	1.6	1.8	2.7	2.7	1.3	4.4	3.9	6.8	11.6	29.0	46.0	55.8
Feb. 83	2.2	2.4	1.8	1.8	2.8	1.5	0.7	4.3	4.0	6.0	14.2	31.6	47.6	54.2
Mar. 83	2.8	3.2	2.2	2.2	3.5	1.3	1.2	5.9	5.2	8.9	22.0	43.6	59.3	64.4
Apr. 83	2.7	3.0	2.2	2.2	3.2	1.2	1.0	7.5	6.8	9.7	20.4	38.2	53.8	52.5
May 83	3.5	3.8	2.9	2.6	3.9	1.2	1.3	7.2	7.1	12.8	26.1	43.5	56.7	64.6
Jun. 83	3.7	4.1	3.1	3.0	4.1	1.3	1.8	7.8	7.1	12.3	19.3	33.1	45.5	53.4
Jul. 83	3.9	4.2	3.1	2.9	3.6	1.2	1.7	7.2	6.6	9.6	17.1	26.3	35.8	43.3
Aug. 83*	4.0	4.6	3.4	3.5	3.8	1.4	1.5	8.1	7.2	10.0	15.0	23.9	36.2	42.6
Last 3 Mo.	3.8	4.3	3.2	3.2	3.8	1.3	1.7	7.7	7.0	10.7	17.2	28.0	39.5	46.9
Last 6 Mo.	3.4	3.8	2.8	2.8	3.7	1.3	1.4	7.3	6.7	10.6	20.2	35.7	49.6	55.2
Last 12 Mo.	2.5	2.8	2.1	2.1	3.1	1.4	1.3	5.7	5.2	7.9	13.6	25.7	38.3	45.4
Total Pools	10191	2651	6470	3775	4601	6493	1394	2364	2126	1500	1033	3025	953	283
Orig. Bal. $MM	25297	5747	16896	11314	12446	22923	3707	5221	4870	3150	2171	7620	1964	540
Pools Reporting	10041	2600	6381	3722	4507	6322	1367	2300	2049	1438	1007	2948	905	266
Out. Bal. $MM	17377	3742	14335	10340	11530	22169	3624	4612	4412	2694	1817	5468	1125	263
Current Factor	0.6993	0.6622	0.8595	0.9226	0.9400	0.9887	0.9903	0.9007	0.9324	0.8915	0.8535	0.7331	0.5976	0.5214

*Preliminary

Source: Merrill Lynch Capital Markets, Debt Strategy Group, Mortgage-Backed Securities Research

understood. Historical pool data released by the Government National Mortgage Association, for example, contain errors both in descriptive pool information, such as issue dates, maturity dates, and coupon rates, and in remaining principal balances.

Merrill Lynch has devised sophisticated error-checking procedures using principal amortization schedules to flag and eliminate incorrect data from inclusion in the calculation of historical conditional prepayment rates on individual GNMA securities or on groups of these securities. Each pool factor is checked to determine whether the reported principal reduction is large enough to cover scheduled amortization. Any factor failing this basic test is flagged for closer examination.

These error procedures avoid the pitfalls of simpler error-checking techniques such as those based solely upon arbitrary limits for changes in reported pool factors. An example of a simplified approach would be one that flags any pool factor that drops by more than 20 percent in one month, such as from .9 to .65, without considering market conditions.

Simple data-checking procedures cannot work in a volatile interest rate market because any limit established will be too wide in some cases (and not flag incorrect data) or too narrow in other situations (excluding correct but dramatic occurrences). The recent experience of 17 percent GNMAs prepaying at rates never before seen in the GNMA market is an example of the latter situation.

The state-of-the-art error-checking procedures built into Merrill Lynch's prepayment data bases and the careful monitoring and checking of the data every month ensure the accuracy and reliability of our prepayment statistics.

Interpreting the results

The prepayment rates currently being discussed in the market differ both in presentation and aggregation technique. Because older securities generally have higher prepayment rates than newer securities with the same coupon, CPRs are most informative when the

continued

results are aggregated by the coupon and origination period of the securities examined. Many market participants do not distinguish between different origination years for a particular coupon, however. While aggregating CPRs by coupon is the next best technique, as can be seen in Figure 1, prepayments often vary significantly for GNMAs with the same coupon that were originated in different years.

Conditional prepayment rates for a given month can be expressed as the percentage of principal outstanding at the beginning of the month that prepays during the month. Comparisons between prepayment rates can be made more meaningful, however, by annualizing the monthly rates to reflect the effect of compounding.[2]

Merrill Lynch computes annualized CPRs by aggregating the monthly prepayment rates for the individual pools before annualizing these rates. If the monthly CPRs for individual pools are annualized before they are weighted and averaged, the resulting prepayment rate calculated for that group is statistically incorrect and may understate the true CPR by as much as 20 percent. Before market participants can effectively value their mortgage securities, they must develop a basic understanding of these issues.

A prepayment matrix showing annualized conditional prepayment rates for each of the last 12 months for selected GNMA coupons is shown in Figure 2. The information illustrates how prepayment rates vary by coupon and provides a clear picture of GNMA prepayment patterns over the last year.[3] Figure 3 provides a more detailed breakdown of prepayments for GNMA 8 percent securities by presenting the results according to the origination year of the securities.

Necessary change

The mortgage securities market has reached a size and level of sophistication that warrants a change in the established methodology for valuing mortgage securities. In a volatile interest rate environment with a wide range of security coupons available, the 12-year life standard does not provide a realistic measure of relative value. Market participants must recognize the realities of this market and adopt the use of conditional prepayment rates as the new standard for mortgage calculations. Only by increasing its level of sophistication can the mortgage securities market continue its rapid growth in size and importance. □

Figure 3

GNMA Single-Family Securities
Annualized Conditional Prepayment Rates (%)

Coupon:	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Issued:	71	74	75	76	77	78	All
Sep. 82	2.6	1.5	1.2	0.9	0.9	0.8	1.0
Oct. 82	2.3	1.7	1.6	1.1	1.0	1.0	1.1
Nov. 82	2.6	2.1	1.9	1.4	1.2	1.0	1.4
Dec. 82	3.3	2.8	2.1	1.8	1.5	1.3	1.7
Jan. 83	3.2	2.6	2.4	2.3	1.8	1.7	2.0
Feb. 83	3.4	3.3	2.6	2.2	1.9	1.9	2.2
Mar. 83	3.9	3.9	3.2	3.3	2.5	2.4	2.8
Apr. 83	3.2	4.0	3.1	3.2	2.4	2.2	2.7
May 83	4.7	4.0	4.4	4.0	3.1	3.0	3.5
Jun. 83	4.9	5.1	4.3	4.3	3.4	2.7	3.7
Jul. 83	4.3	5.7	3.8	4.3	3.9	3.0	3.9
Aug. 83*	5.4	5.1	4.9	4.3	3.9	3.0	4.0
Last 3 Mo.	4.9	5.3	4.3	4.3	3.7	2.9	3.8
Last 6 Mo.	4.4	4.6	4.0	3.9	3.2	2.7	3.4
Last 12 Mo.	3.6	3.5	3.0	2.8	2.3	2.0	2.5
Total Pools	393	601	877	2758	3603	1760	10191
Orig. Bal. $MM	1454	1867	1751	6280	8753	4557	25297
Pools Reporting	378	588	860	2707	3569	1749	10041
Out. Bal. $MM	483	905	997	4100	6788	3791	17377
Current Factor	0.3446	0.5016	0.5794	0.6719	0.7823	0.8355	0.6993

*Preliminary

Source: Merrill Lynch Capital Markets, Debt Strategy Group, Mortgage-Backed Securities Research

[1] *See Helen F. Peters, "Pricing a Mortgage-Backed Security—The Misuse of FHA Experience," The Money Manager December 17, 1979; "Prices and Yields on Mortgage-Backed Securities—The Assumptions Make the Difference," Mortgage Banker September 1980; and Scott M. Pinkus, "The Efficiency of the Market for GNMA Mortgage Pass-Through Securities," Mortgage-Backed Securities Research Special Report Series, Merrill Lynch Capital Markets.*

[2] *A monthly prepayment rate can be annualized by the following formula where Pr_t is the rate for month t:*

$$\text{Annualized CPR} = 1 - (1 - PR_t)^{12}$$

[3] *GNMA factors refer to the last day of the month immediately preceding the actual GNMA payment date. August prepayment rates, therefore, are based on the August 31 factor, but apply to GNMA payments made on September 15.*

MORTGAGE MARKET TRENDS

November 11, 1983

Debate on the importance of the Federal budget deficit continues within the Administration, among the Presidential candidates, and throughout the public at large. The last surplus in the Federal budget was achieved in 1969. Since then, the total Federal debt has increased from about $100 billion to more than $1 trillion, just about in step with GNP growth. The more important shifts in the Federal budget during the past 20 years are in the mix of spending categories, increasing indexation of certain spending programs, and, more recently, the Reagan initiative to reverse the growth of the public sector. These shifts have much to do with the current deficit problem and the potential for a solution.

In the early 1960s, national defense spending accounted for 45 percent of Federal outlays. Human resources spending took less than 30 percent, and net interest payments on the debt stood below 7 percent of all Federal outlays. By the end of that decade, military and social spending had increased sharply, with the defense share down slightly and the social spending share up considerably. This trend continued throughout the 1970s, and by 1979 defense spending had declined to 24 percent of the budget, while human resource programs exceeded 50 percent. Due to the growing deficits and higher interest rates of that period, net interest was near 9 percent of outlays by 1979.

There was no major tax increase to pay for these expanding programs. Instead, inflation and the progressive income tax system combined automatically to increase Federal tax revenues through bracket creep. This effect was accelerated by the entry or reentry into the labor force of many married women, creating two-income households taxed at much higher marginal rates. A shortfall still existed in the budget, and borrowing made up the difference. The Federal deficit approached $60 billion in 1981, then a record-high level. The budget gap advanced to $110 billion in the following fiscal year and has been put at $195 billion for the fiscal year just ended. As a share of GNP, probably the best measure of its burden on the economy, the deficit has grown from about 2 percent ten years ago to 7 percent for fiscal 1983. A look at the relative contribution of the spending and revenue components of the deficit will help put the problem in perspective.

The Reagan tax cut passed in 1980 has reduced marginal tax rates by 25 percent. The more favorable treatment of real estate under the Accelerated Cost Recovery System also has reduced tax revenue somewhat during the past two years. Although these tax cuts have had an impact on Federal revenues, the chief cause of growing deficits has been expansion of Federal spending.

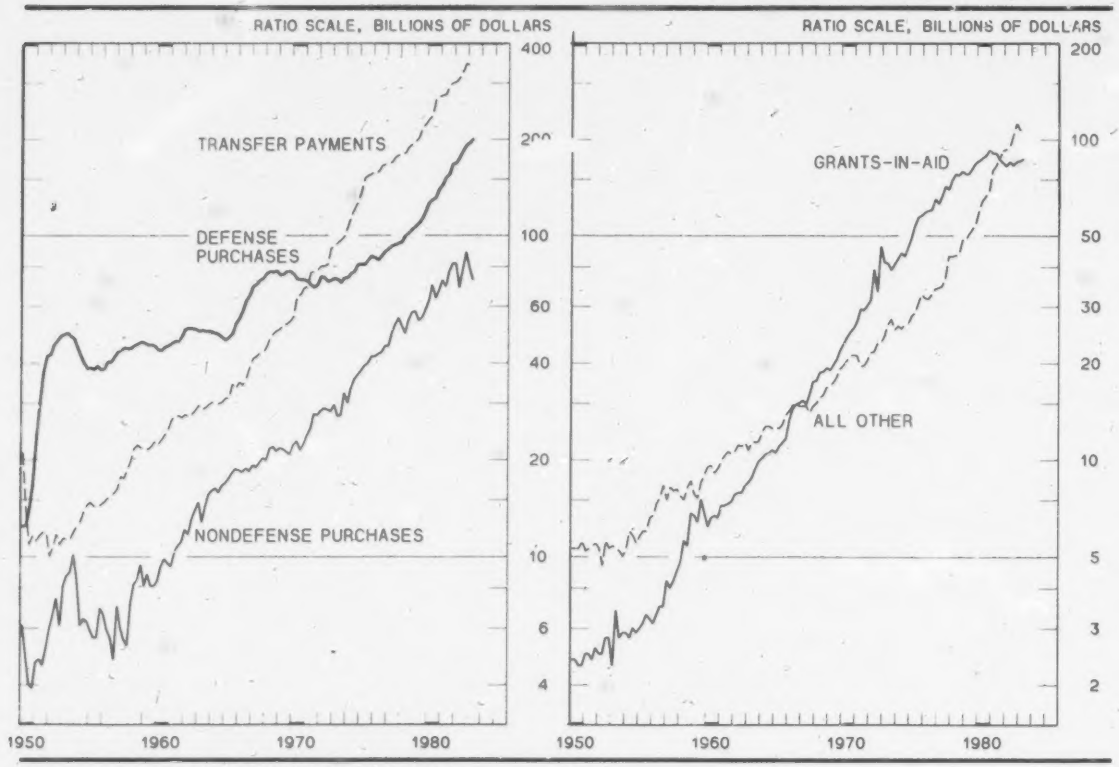
During the past ten years, Federal tax revenue as a percent of GNP has remained relatively level, at 18.5 percent. Spending during the same period has increased from 19.6 percent of GNP to 25.6 percent, a gain of almost one-third. Controlling the growth of Federal spending is difficult, because many programs have been indexed to inflation since the mid-1970s or are entitlement programs open to all who qualify. Congress has dealt with some of these problems, especially on the Social Security issue.

More progress is needed, however, to complete the job of putting Federal finances back on a sound footing. Only by lowering the deficit near 2 to 3 percent of GNP can we hope to have interest rates down to levels permitting sustained economic growth throughout the decade.

Dr. Warren Matthews
Senior Economist

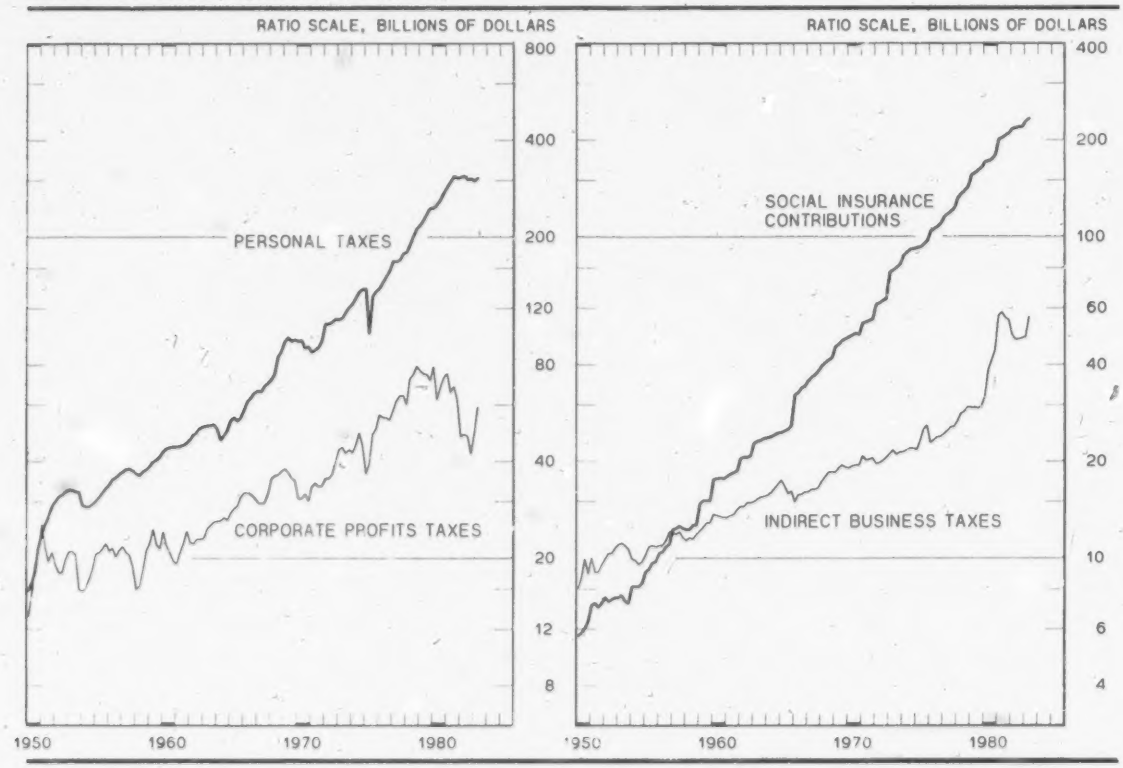
FEDERAL GOVERNMENT EXPENDITURES

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



FEDERAL GOVERNMENT RECEIPTS

SEASONALLY ADJUSTED ANNUAL RATES, QUARTERLY



Source : Federal Reserve Board

MORTGAGE MARKET TRENDS—DECEMBER 1983

RESIDENTIAL STRUCTURES, BY UNIT TYPE
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982												
JUN	89	59	30	929	607	322	91	71	20	910	703	207
JUL	91	53	37	1,062	585	477	107	70	37	1,185	721	464
AUG	80	54	26	888	580	308	96	70	26	1,046	738	308
SEP	100	61	39	1,003	657	346	105	71	34	1,134	773	361
OCT	100	63	37	1,172	737	435	111	73	38	1,142	782	360
NOV	100	64	36	1,284	843	441	109	73	36	1,361	947	414
DEC	76	50	26	1,168	810	358	83	57	26	1,280	921	359
1983												
JAN	85	56	29	1,447	1,996	461	92	64	29	1,707	1,239	468
FEB	93	56	36	1,479	949	530	96	66	30	1,784	1,220	564
MAR	135	91	44	1,467	985	482	135	95	40	1,605	1,108	497
APR	138	93	45	1,536	982	554	136	103	33	1,506	1,118	388
MAY	149	104	45	1,635	1,076	559	175	124	51	1,807	1,279	528
JUN	171	114	57	1,761	1,160	601	173	125	48	1,736	1,250	486
JUL	147	92	55	1,782	1,057	725	162	113	49	1,804	1,167	637
AUG	153	97	56	1,652	1,007	645	177	121	56	1,909	1,255	654
SEP	148p	89p	59p	1,504p	962p	542p	154p	108p	46p	1,652p	1,150p	502p
9 months												
1983	1,219	792	426				1,300	919	382			
1982	699	445	253				761	541	220			
1981	791	542	248				871	653	219			
1980	875	612	263				930	704	226			

VALUE OF NEW CONSTRUCTION PUT IN PLACE
(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1982				
JUN	116,619	34,398	14,950	67,271
JUL	116,632	35,270	16,085	65,277
AUG	117,960	35,852	16,774	65,334
SEP	118,274	36,309	16,728	65,237
OCT	118,591	36,895	16,720	64,976
NOV	121,864	38,868	16,902	66,094
DEC	122,957	41,495	17,113	64,349
1983				
JAN	128,757	45,650	17,775	65,332
FEB	131,430	49,869	18,907	62,654
MAR	133,662	53,374	18,958	61,330
APR	134,876	57,134	20,130	57,612
MAY	139,801	61,926	20,300	57,575
JUN	147,929	65,797	22,124	60,008
JUL	152,028	67,596	25,082	59,348
AUG	157,350	68,783	26,025	62,542
SEP	156,284p	68,161p	24,562p	63,561p

HOUSE SALES
(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1982				
JUN	192	34	253	8.3
JUL	183	31	251	8.5
AUG	186	34	247	7.5
SEP	168	40	248	6.9
OCT	173	41	245	6.1
NOV	167	39	250	5.5
DEC	148	33	255	5.8
1983				
JAN	155	44	256	5.2
FEB	163	46	253	5.4
MAR	237	57	259	5.2
APR	236	59	264	5.1
MAY	259	64	271	4.9
JUN	283	59	283	5.4
JUL	260	52	289	5.9
AUG	280	51	298	6.4
SEP	242p	52p	302p	6.2p
9 months				
1983	2,115	484		
1982	1,462	297		
1981	1,909	345		
1980	2,202	416		

RESIDENTIAL STRUCTURES, BY REGION
(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1982																
MAY	10	13	41	17	110	145	488	201	12	16	54	18	117	144	578	189
JUN	10	12	46	20	105	118	499	207	10	18	44	19	98	157	462	193
JUL	9	12	45	24	101	140	555	266	11	15	62	18	104	159	725	197
AUG	13	10	42	17	113	106	485	184	12	16	49	16	119	164	567	196
SEP	12	15	51	21	114	131	530	228	16	15	54	20	138	141	629	226
OCT	13	14	51	22	135	139	635	263	10	20	58	23	108	156	628	250
NOV	14	13	56	17	127	131	649	285	14	15	63	17	160	183	773	245
DEC	8	7	41	21	112	148	738	307	8	7	47	21	122	155	714	289
1983																
JAN	6	6	52	21	152	188	764	343	5	6	63	18	164	231	992	307
FEB	8	6	57	22	185	163	794	337	7	8	58	24	270	263	900	351
MAR	11	14	82	28	136	173	835	323	13	13	80	29	210	196	855	344
APR	14	16	74	34	165	172	832	367	14	18	75	30	175	192	804	335
MAY	15	20	77	38	148	194	885	408	17	25	93	40	164	229	1,008	406
JUN	19	21	86	45	183	201	930	447	18	25	89	42	171	214	932	419
JUL	16	17	78	36	181	186	1,004	411	18	23	82	39	164	233	985	422
AUG	18	21	77	37	182	202	870	398	20	26	93	38	175	257	1,032	445
SEP	20p	22p	70p	37p	185p	188p	737p	394p	15p	24p	80p	34p	137p	229p	908p	378p
9 months																
1983	127	143	653	298					127	168	713	294				
1982	76	86	385	154					83	106	430	142				
1981	86	105	393	207					88	128	459	192				
1980	87	125	390	226					94	147	462	227				

CONSTRUCTION STATUS
(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1982						
MAY	666	425	241	86	61	25
JUN	671	438	232	85	76	28
JUL	690	442	248	85	64	21
AUG	690	442	248	91	66	25
SEP	713	450	263	84	63	21
OCT	717	448	269	102	71	30
NOV	732	453	279	94	68	26
DEC	718	439	279	96	68	28
1983						
JAN	728	442	286	81	60	21
FEB	747	456	291	78	53	25
MAR	835	517	318	91	69	22
APR	832	516	316	90	69	21
MAY	901	565	336	106	75	31
JUN	951	597	354	123	93	30
JUL	988	615	373	120	91	29
AUG	1,010	629	381	154	106	48
SEP	1,032p	637p	395p	133p	100p	33p
9 months						
1983				976	716	260
1982				714	522	211
1981				945	703	243
1980				1,025	697	329

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[2]	CONSTRUCTION LOANS[3] ALL TYPES	FNMA		GNMA Current Securities Yield[4]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				Mandatory Delivery Yields			Aaa Utility New Issue	U.S. Gov't.		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't.
	FHA New[1]	Conventional		Conventional				ARM (5 yr Treas)	Conv			10-yr	26-wk			
		New	Existing	New	Existing											
1982																
JUN	16.73	16.75	16.80	15.40	15.56	17.62			16.375	15.89	15.92	14.30	12.310	13.96	81	159
JUL	16.29	16.50	16.55	15.70	15.52	17.13			16.125	15.54	15.61	13.95	12.236	12.94	68	159
AUG	14.61	15.40	15.45	15.71	15.63	15.62	17.19		15.500	14.31	13.95	13.06	10.105	10.15	66	125
SEP	14.03	15.05	15.05	14.99	15.30	15.37			14.750	13.51	13.50	12.34	9.539	10.36	53	117
OCT	12.99	13.95	13.95	14.41	14.95	14.13		13.097	14.000	12.86	12.20	10.91	8.299	9.20	79	195
NOV	12.82	13.80	13.80	13.81	14.29	13.88	15.14	12.605	13.375	11.85	11.76	10.55	8.319	8.69	106	130
DEC	12.80	13.62	13.64	13.70	13.95	13.37		12.346	13.000	12.00	11.84	10.54	8.225	8.51	96	146
1983																
JAN	12.87	13.44	13.45	13.49	13.54	13.88		12.097	13.000	11.89	12.05	10.46	7.898	8.17	82	143
FEB	12.65	13.18	13.19	13.16	13.40	13.75		12.376	12.875	12.20	12.08	10.72	8.233	8.34	110	148
MAR	12.68	13.17	12.85	13.51	13.04	13.63	12.56	11.916	12.920	11.82	11.70	10.51	8.325	8.52	98	131
APR	12.50	13.02	13.07	12.42	12.88	13.50		11.955	12.775	11.78	11.41	10.40	8.343	8.53	109	138
MAY	12.41	13.09	13.09	12.67	12.82	13.63	11.72	11.470	12.583	11.54	11.32	10.38	8.20	8.33	109	116
JUN	12.96	13.37	13.38	12.36	12.67	14.00		12.480	13.163	12.03	11.87	10.85	8.89	9.00	109	118
JUL	14.23	14.00	14.01	12.50	12.63	14.50		12.978	13.638	12.80	12.32	11.38	9.26	9.25	191	142
AUG	13.78	13.90	13.92	12.38	12.72	14.38	12.99	13.195	13.688	13.22	12.25	11.85	9.51	9.54	153	137
SEP	13.55	13.60	13.62	12.57p	12.86p	14.50		12.863	13.213	12.78	12.53	11.65	9.15	9.24	102	113

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION													
						1-4 Units					5+ Units					Nonresidental			
	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.
1982																			
APR	9,755	2,900	3,100	3,071	684	6,721	2,420	2,582	1,674	45	469	50	177	172	70	2,535	400	341	1,225	569
MAY	9,689	3,080	3,193	2,899	517	6,626	2,450	2,541	1,597	38	479	190	163	111	15	2,614	470	489	1,191	464
JUN	11,792	3,440	4,041	3,826	485	8,153	2,850	3,258	1,995	50	687	180	271	223	13	2,932	390	512	1,608	422
JUL	10,874	2,940	3,427	3,661	846	7,361	2,330	2,922	2,049	60	501	70	206	177	48	2,862	390	299	1,435	738
AUG	10,108	2,710	3,601	3,251	546	7,412	2,500	2,909	1,958	45	543	40	280	210	13	2,423	440	412	1,083	488
SEP	10,807	2,620	3,858	3,855	474	7,911	2,460	3,130	2,276	45	563	20	295	226	22	2,393	200	433	1,353	407
OCT	10,954	3,080	3,529	3,764	581	7,637	2,480	2,817	2,296	44	781	340	216	210	15	2,646	370	496	1,258	522
NOV	13,450	4,460	4,026	4,458	506	10,067	3,930	3,148	2,935	54	702	220	337	107	38	2,751	380	541	1,416	414
DEC	19,578	5,850	6,443	5,724	1,561	13,941	5,390	4,778	3,705	68	1,025	50	605	297	73	4,482	280	1,060	1,722	1,420
1983																			
JAN	16,530	6,400	4,755	4,595	780	12,137	5,840	3,621	2,628	48	1,066	250	529	246	41	3,426	410	605	1,721	691
FEB	18,116	6,960	5,090	5,197	869	13,850	6,820	3,946	3,041	43	958	90	383	407	78	3,748	490	761	1,749	748
MAR	23,138	8,590	7,577	5,955	1,016	17,149	7,160	5,877	4,054	58	1,061	70	677	233	81	4,498	930	1,023	1,668	877
APR	21,117	7,520	7,942	4,903	756	15,983	6,630	6,292	3,005	56	1,269	340	656	223	50	3,865	550	990	1,675	650
MAY	23,354	7,760	8,348	6,427	819	17,229	6,860	6,903	3,409	57	1,148	130	549	411	58	4,977	770	896	2,607	704
JUN	30,493	9,180	10,936	8,851	1,526	21,917	7,840	8,683	5,302	92	2,537	980p	916	491	150	6,039	360	1,337	3,058	1,284
JUL	n.a.	n.a.	10,275	6,973	995	n.a.	n.a.	8,297	4,667	64	n.a.	n.a.	759	311	71	n.a.	n.a.	1,219	1,995	860
AUG	n.a.	n.a.	11,291	9,646	1,879	n.a.	n.a.	9,197	6,253	57	n.a.	n.a.	740	485	242	n.a.	n.a.	1,354	2,908	1,580

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[1]	Life Cos.
1982										
MAR	46,125	8,910	16,664	9,630	10,921	10,005	4,130	3,347	1,564	964
APR	48,376	9,090	17,186	11,381	10,719	10,329	4,650	3,390	1,579	710
MAY	49,695	9,390	17,362	12,345	10,598	9,690	4,180	3,350	1,627	533
JUN	49,270	9,240	17,327	12,543	10,160	8,765	3,220	3,597	1,648	300
JUL	48,726	9,610	16,951	13,436	9,729	9,171	3,410	3,537	1,679	545
AUG	50,855	10,410	17,748	13,192	9,505	9,646	3,750	3,847	1,615	434
SEP	51,994	11,350	18,241	13,108	9,295	11,139	5,290	3,888	1,466	495
OCT	54,730	13,610	19,328	12,512	9,280	13,394	7,040	4,024	1,620	710
NOV	60,452	16,540	20,785	13,457	9,670	16,226	8,060	5,017	1,819	1,330
DEC	65,375	19,940	21,548	14,267	9,620	17,913	7,780	6,082	1,991	1,304
1983										
JAN	66,607	20,160	22,945	13,802	9,700	15,343	6,660	5,555	1,928	1,200
FEB	74,301	24,060	25,677	14,847	9,717	17,367	6,950	7,271	2,076	1,070
MAR	80,178	26,500	28,846	14,982	9,850	23,050	8,410	10,291	3,051	1,298
APR	109,493	53,320	31,850	13,993	10,330	26,184	11,630	9,730	3,230	1,594
MAY	81,764	21,560	33,926	15,767	10,531	23,274	7,680	10,622	3,667	1,305
JUN	95,914p	34,140p	35,319	15,308	11,147	25,641	7,040	12,555	3,940	2,106
JUL	n.a.	n.a.	36,852	12,203	12,148	n.a.	n.a.	14,092	3,377	2,164
AUG	n.a.	n.a.	38,590	13,276	14,120	n.a.	n.a.	12,668	3,556	1,645

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
		FHA/		Total		FHA (203)		VA		Private	
	Total	VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1982											
MAR	69	37	32	39	2,193	9	373	7	421	23	1,399
APR	63	34	29	35	1,976	8	322	6	374	21	1,280
MAY	67	31	36	43	2,222	8	335	6	328	29	1,559
JUN	83	40	43	50	2,743	9	408	8	443	33	1,892
JUL	84	38	46	52	2,687	9	375	9	482	34	1,830
AUG	82	36	46	54	2,997	8	452	10	573	36	2,072
SEP	91	47	44	60	3,248	11	482	13	743	36	2,043
OCT	103	59	44	52	2,826	10	425	6	385	36	2,016
NOV	104	60	44	53	2,920	11	498	8	455	34	1,967
DEC	175	125	50	63	3,471	16	703	9	564	38	2,204
1983											
JAN	137	98	39	54	3,201	14	637	10	630	30	1,934
FEB	138	96	42	62	3,607	17	795	15	961	30	1,851
MAR	176	113	63	87	5,003	31	1,508	20	1,243	36	2,252
APR	180	117	63	96	5,483	39	1,867	19	1,790	38	2,426
MAY	165	91	74	101	5,959	24	1,152	30	1,911	47	2,896
JUN	233	145	85	139	8,015	60	2,938	24	1,541	55	3,536
JUL	182	102	80	115	6,863	38	1,854	20	1,224	57	3,785
AUG	205	106	99	139	8,665	31	1,641	35	2,193	73	4,831

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Sold	Pass-Through Securities	
	Comm.	Purc.	Comm.	Issued					Applications	Issued
1982										
JAN	813	430	112	322	3,276	3,280	1,629	1,628	1,543	902
FEB	1,204	519	2,287	682	566	565	1,228	1,115	1,789	960
MAR	1,880	604	224	1,071	2,607	2,523	1,481	1,564	2,223	1,335
APR	2,482	755	428	662	2,726	2,824	2,144	2,176	1,219	835
MAY	1,550	1,006	467	802	1,699	2,692	1,214	1,194	1,812	1,194
JUN	1,582	1,223	2,696	337	3,207	3,166	1,581	1,564	2,800	1,530
JUL	2,016	1,354	670	1,858	2,201	2,181	2,236	2,205	2,116	1,011
AUG	1,820	1,931	1,694	789	2,906	2,768	2,529	2,618	2,850	1,383
SEP	1,482	1,670	1,503	1,008	2,980	2,892	1,798	1,924	16,429	1,521
OCT	1,426	1,449	1,741	2,167	2,467	2,506	2,000	2,200	1,297	1,441
NOV	2,795	1,681	2,281	1,838	1,818	1,714	1,917	2,177	1,692	1,564
DEC	3,055	2,495	1,415	2,436	897	1,068	3,916	3,804	3,093	2,330
1983										
JAN	2,006	2,045	1,409	1,082	2,004	2,059	1,479	1,641	4,593	2,657
FEB	784	1,594	1,496	1,213	847	868	1,688	1,756	4,316	3,573
MAR	1,184	1,433	2,237	1,684	1,410	1,438	2,849	2,469	9,487	5,292
APR	1,023	1,004	1,055	1,152	2,149	3,079	1,807	1,525	6,423	4,359
MAY	1,534	1,579	1,251	1,160	2,881	2,334	2,439	1,408	6,687	4,654
JUN	2,506	1,333	1,713	1,097	2,319	2,358	1,494	1,244	6,444	5,246
JUL	1,198	1,358	1,618	1,651	4,621	4,671	1,523	1,491	5,468	4,363
AUG	1,282	1,213	820	1,052	5,318	6,367	1,621	1,585	7,976	5,943

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Non-res.		Total	1-4 Units	5+ Units	Non-res.
1982									
JAN	130	30	30	70	30	8,070	650	3,630	3,800
FEB	170	50	40	80	60	7,530	540	3,340	3,650
MAR	130	70	10	50	40	6,420	630	2,000	3,790
APR	360	70	80	210	60	7,820	560	2,330	4,930
MAY	130	50	30	50	40	8,150	660	3,230	4,620
JUN	180	60	40	80	70	7,660	590	2,250	4,820
JUL	160	50	30	80	40	8,900	580	2,250	6,070
AUG	150	60	20	70	50	4,420	690	1,570	2,160
SEP	170	70	30	70	30	6,180	980	2,730	2,470
OCT	170	90	30	50	30	5,540	480	2,340	2,720
NOV	180	110	20	50	20	5,370	590	2,170	2,610
DEC	230	100	40	90	50	5,680	880	1,940	2,860
1983									
JAN	150	80	30	40	60	7,160	800	3,720	2,640
FEB	220	90	40	90	50	9,470	980	4,450	4,040
MAR	230	110	20	100	40	14,050	1,570	9,320	3,160
APR	200	80	10	100	50	na	1,150	na	2,520
MAY	430	220	50	160	200	6,440	890	3,820	1,730
JUN	600p	220p	90p	290p	160p	18,470p	950p	15,420p	2,100
JUL	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AUG	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.—Not available; p—Preliminary

[1]From the National Association of Realtors' "Existing Home Sales" series.

[2]Reflects cumulative total through the latest month for each column.

[3]Secondary market gross yields.

[4]Federal Home Loan Mortgage Corp. Existing construction only.

[5]Federal Reserve's weighted average interest rate for Commercial Banks.

[6]Weighted average gross yields for accepted bids.

[7]Survey of three New York security dealers. Securities for immediate delivery.

[8]Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.